SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I — Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	July NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		323.7	187.2	144.1	107.9	245.1	126.6	97.8	146.5	282.1
Alexandria	156.0	255.9	220.7	157.8	N.A.	156.1	166.7	118.9	164.2	N.A.
Bristol	139.0	33.3	185.1	88.1	81.2	110.1	105.1	103.6	147.9	319.5
Cape Charles - Exmore	131.2	69.6	263.0	130.8	N.A.	114.6	N.A.	N.A.	118.4	186.3
Charlottesville	171.1	155.2	377.1	125.9	N.A.	136.5	98.6	113.6	207.8	270.5
Danville	118.7	N.A.	91.0	110.8	117.2	96.2	97.0	86.1	N.A.	205.0
Franklin	139.0	N.A.	96.4	124.6	114.7	121.3	N.A.	102.4	139.8	229.7
Fredericksburg	257.2	695.8	760.5	N.A.	156.2	208.0	N.A.	67.9	218.0	714.2
Harrisonburg	107.8	234.3	956.4	N.A.	136.3	111.3	N.A.	125.4	140.4	241.3
Lynchburg	188.5	454.9	171.5	117.4	N.A.	119.5	95.3	118.3	171.8	542.0
Newport News - Hampton	143.8	N.A.	288.1	134.4	95.0	130.0	128.1	128.9	177.9	N.A.
Norfolk - Va. Beach - Portsmouth	152.6	294.5	297.0	163.2	101.1	139.7		91.0	199.1	N.A.
Petersburg	115.7	107.9	142.4	N.A.	40.0	80.5	116.7	98.9	123.9	218.0
Richmond	140.9	341.1	88.2	157.6	120.9	126.0		112.8	127.9	250.8
Roanoke	144.5	572.4	32.2	105.4	159.8	104.0	114.6	73.0	156.1	275.3
Staunton	105.9	116.5	9.6	N.A.	72.5	93.0	N.A.	N.A.	121.4	N.A.
Williamsburg	158.3	184.2	146.3	177.8	N.A.	148.3	N.A.	133.6	125.4	272.3
Winchester	166.0	272.9	89.0	120.4	192.2	130.2	N.A.	120.0	N.A.	267.5

TABLE II — August, 1985 — Percentage Change from same month last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	July NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	July RETAIL SALES ‡
The State		19.3	6.6	4.3	1.6	8.5	3.5	3.4	3.9	8.5
Alexandria	2.6	12.3	-25.1	9.6	N.A.	8.0	8.7	17.4	-12.7	15.0
Bristol	3.8	29.8	222.0	2.5	7.0	1.0	4.0	5.5	1.9	8.8
Cape Charles - Exmore	7.0	-33.0	-56.0	2.3	N.A.	12.0	N.A.	19.1	2.4	8.7
Charlottesville	6.7	50.0	-62.4	1.2	N.A.	6.4	-1.0	12.0	13.0	-4.4
Danville	-2.6	N.A.	334.0	-7.5	-11.0	-0.7	1.0	-0.3	N.A.	3.1
Franklin	6.3	N.A.	146.4	5.0	7.3	-5.1	N.A.	0.6	3.6	31.6
Fredericksburg	5.2	15.9	96.0	N.A.	8.2	17.0	N.A.	4.4	1.0	3.6
Harrisonburg	0.2	23.0	95.8	N.A.	8.3	-0.5	N.A.	3.2	-4.7	3.9
Lynchburg	6.5	31.6	-15.1	1.0	N.A.	6.5	0.3	-1.0	13.8	3.4
Newport News - Hampton	11.2	N.A.	35.3	8.5	5.2	15.4	3.0	8.1	17.8	7.5
Norfolk - Va. Beach - Portsmouth	8.0	0.7	20.2	2.0	6.0	16.4		5.8	10.5	7.2
Petersburg	5.4	-3.4	36.0	N.A.	-35.4	-10.4	2.5	4.0	24.8	8.4
Richmond	6.2	20.0	-44.0	1.2	3.2	3.6		2.0	10.6	11.8
Roanoke	2.0	46.0	-61.0	2.7	0.4	5.1	4.6	-28.4	6.2	14.7
Staunton	3.1	0.9	-98.6	N.A.	-7.0	6.2	N.A.	N.A.	4.2	6.5
Williamsburg	4.4	7.7	9.8	5.6	N.A.	1.2	N.A.	16.1	-0.6	9.5
Winchester	-2.7	13.5	4.2	-1.0	0.1	2.3	N.A.	-3.2	N.A.	-11.9

TABLE III — Percentage Change January - August from same period last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	Jan.-July NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	Jan.-July RETAIL SALES
The State		3.7	12.0	2.9	6.9	8.1	4.3	3.0	5.7	8.5
Alexandria	6.5	-2.6	9.5	4.1	N.A.	-0.3	8.9	10.0	5.1	13.6
Bristol	1.3	-3.7	53.0	-2.3	9.9	-4.9	3.9	5.0	-0.3	1.1
Cape Charles - Exmore	4.6	-26.6	-91.1	18.1	N.A.	-5.2	N.A.	6.9	1.8	6.7
Charlottesville	1.5	19.1	-49.0	1.0	N.A.	3.9	3.3	1.0	3.5	-7.7
Danville	0.0	N.A.	-54.0	-5.0	7.2	-7.7	1.5	3.0	N.A.	1.0
Franklin	5.2	N.A.	680.1	1.0	2.2	-6.6	N.A.	-2.1	3.4	36.7
Fredericksburg	2.5	5.7	110.8	N.A.	8.0	4.2	N.A.	2.3	-3.5	13.2
Harrisonburg	2.6	18.2	61.5	N.A.	-0.7	6.0	N.A.	5.0	0.9	5.4
Lynchburg	6.7	10.4	19.2	-1.2	N.A.	-0.4	0.9	3.0	15.8	3.9
Newport News - Hampton	8.4	N.A.	16.0	3.0	9.3	3.5	4.2	11.0	12.1	8.0
Norfolk - Va. Beach - Portsmouth	6.1	8.8	-1.1	3.0	11.0	2.9		-3.0	9.0	9.7
Petersburg	8.9	-6.7	-33.0	N.A.	-12.1	12.8	2.2	3.5	19.3	6.7
Richmond	4.8	-0.5	30.0	3.0	4.2	-0.2		3.0	5.8	8.4
Roanoke	2.3	18.5	-18.0	2.0	7.4	3.6	5.2	-12.8	3.4	4.0
Staunton	-0.8	9.1	-7.5	N.A.	-3.0	1.6	N.A.	N.A.	-2.7	4.7
Williamsburg	8.6	13.6	-20.6	19.0	N.A.	2.4	N.A.	9.0	2.8	21.1
Winchester	0.3	15.8	138.0	0.2	8.9	-2.1	N.A.	-3.1	N.A.	-2.2

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.
#Virginia Employment Commission data which lags behind current reports.
†Preliminary data based on a survey sample.
‡Revised data based on sales tax information which lags behind current reports.
⊐ Only total MSA data are available for these areas

percentages apply. In 1984, Fredericksburg had the highest growth rates of all the seventeen areas in taxable sales and new car registrations. Given that base, the January-July 1985 cumulative increase of 13.2 percent in taxable sales is outstanding, and even the cumulative new car registration gain of only 4.2 percent takes on a different perspective. Likewise, the cumulative City Index rise of "only" 2.5 percent represents the improvement from the highest 1984 base level among all localities. Fredericksburg remains a leader, as shown dramatically by reviewing the level of the City Index and most other indices in Table I.

A postscript on the national performance versus that of Virginia is appropriate. On September 20, the Department of Commerce released its "flash" prediction that real Gross National Product grew at an annual rate of 2.8 percent in the third quarter. If that prediction proves to be correct, real growth of 3 percent or better for the year is virtually impossible, and even a 2.5 percent gain requires much stronger fourth quarter growth. However, the Administration cheered the report as good news; and it also considered very hopeful the August retail sales and employment gains accompanied by the drop in unemployment to 7.0 percent. At the national level those reports were good news, in the sense they at least were better news than earlier results. Contrast that with Virginia's situation. If this month's Virginia Business Report had shown August growth rates for Virginia which were the same size as the national rates, that would have been very depressing news. It would have meant a slowdown here ranging from 30 to 50 percent across our indicators, signaling the impending end of Virginia's expansion. The current Virginia growth rates, which we repeatedly have referred to as "more moderate but strong" compared to Virginia's earlier experience and which most Virginians consider unexceptional, are growth rates which would be described with superlatives such as spectacular or even miraculous if they were achieved at the national level. RLP

Future Federal Deficits – How Large?

Reports on the probable size of future Federal deficits were snuffed from the headlines soon after the Congress adopted the concurrent resolution on August first calling for legislative action to reduce the fiscal year 1986 (FY1986) deficit by $55 billion and the 1986-1988 deficits by a total of $276 billion. However, the resolution set September 27 as the date when the various committees would submit the recommended legislation to the House and Senate Budget Committees, who then must mold the final package for consideration by the Congress. The budget deficits have been like a house fire, threatening to get totally out of control and reduce our economic expansion to a smoldering ruin. So far Congress has only expressed their intentions to contain the blaze. Beginning next week we shall see whether or not they will in fact take effective action. All of you have heard and read countless times that such action has become critical. This month we are providing you with a current assessment of the probable future deficits under two scenarios, one optimistic and one pessimistic, so you can judge the seriousness of the situation for yourself. The estimates were prepared in August by the Congressional Budget Office (CBO), whose responsibility under law is to provide Congress with objective analysis of the economic effects of their actions. Both scenerios assume the August 1 current resolution's budget targets are fully implemented in the forthcoming legislation.

The actual deficits depend upon the level of economic activity in the nation, so the two scenarios represent the estimated results under alternative projections of future growth. The two sets of national growth rate projections are not forecasts — they are intended for illustration only. Consider therefore which path you think is likely to be closest to the economy's actual course.

Table IV shows the projected current dollar Gross National Product (GNP), the real (inflation-adjusted) growth rates for GNP, and the estimated deficits for the rest of the decade under the two growth paths. The path labelled "CBO economic assumptions" is what we will refer to as the optimistic outlook. Their assumptions are steady growth in real GNP of approximately 3.5 percent per year through 1990. If that does occur, the nation will have experienced a 97 month expansion, from November 1982 through December 1990, with average real growth slightly above the historical trend. The National Bureau of Economic Research is the organization which dates our business cycles and has identified the nation's cyclical movements back to 1854. From 1854 to the present, there has been one expansion which lasted 80 months, the period from June 1938 through February 1945, encompassing World War II. Only one expansion had a longer life, the 106 month expansion from February 1961 through December 1969, including the Vietnam War. The longest peacetime expansion was 50 months, in the mid-1930's. The average of all 25 peacetime expansion periods was 27 months; and the average length for the 6 post-World War II expansions has been 34 months. September 1985 coincidentally is the thirty-fourth month of the current expansion. Historical experience does not provide very favorable odds for continued real growth for another 63 months. The current manufacturing, foreign trade, and farm credit situations also do not instill confidence that we are poised to achieve the longest peacetime economic expansion on record. Therefore we consider the CBO assumptions to be an optimistic outlook. Given those assumptions, and with full implementation of the August 1 Congressional resolution, the level of the Federal deficit is expected to be reduced to $175 billion in FY1986, and then decline to $120 billion in FY1990. As a percent of GNP, the deficit would decrease steadily to 2.1 percent in FY1990. However, the deficit of $120 billion in fiscal year 1990 still would be an estimated 8.8 percent of total Federal expenditures. Plus, the Federal debt would be $733 billion higher than it is today.

Now to the pessimistic scenario, illistrated by the Congressional Budget Office estimates for their "low growth alternative." This alternative postulates a recession beginning in mid-1986 and lasting 16 months. Such an event would add almost $100 billion to the FY1987 deficit, and over $100 billion to the deficit in each subsequent year for the rest of the decade. Deficits of over $250 billion each year, running over 5 percent of the nation's GNP, even after three years of recovery, 1988-1990; and a Federal debt increase of $1,239 billion compared to the present level. If you do not expect a recession in 1986, you can get a rough idea of the impact of a 1987 or 1988 recession by shifting the estimated impacts forward in time. The scenario shown, as stated above, is for illustration only. What it does illustrate dramatically is that a deviation of real GNP of 6-6.5 percentage points, from a positive growth rate of 3.4 percent to a decline of 3.0 percent, in any one of the next five years is likely to double the Federal deficit by the following year. In addition, the higher deficit levels can be expected to continue during the ensuing recovery and expansion. The possibility of a future recession means the Federal deficit will remain a threat, ready to explode to unprecedented levels, even if Congress achieves its stated budget goals in the coming weeks. If Congress fails, then our pessimistic illustration is very likely to become the optimistic one of the future. RLP

TABLE IV THE BUDGET OUTLOOK UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS

Part A. ALTERNATIVE ECONOMIC ASSUMPTIONS BY CALENDAR YEAR

	1985	1986	1987	1988	1989	1990
GNP (billions of current dollars)						
CBO economic assumptions	3906	4217	4548	4905	5289	5704
Low-growth alternative	3902	4135	4144	4409	4691	4975
Real GNP (percent change, year over year)						
CBO economic assumptions	2.6	3.6	3.4	3.5	3.5	3.5
Low-growth alternative	2.5	1.8	-3.0	3.6	3.9	3.7

Part B. BUDGET DEFICIT OUTLOOK BY FISCAL YEAR

	CBO Projections			CBO Extrapolation	
	1986	1987	1988	1989	1990
In Billions of Dollars					
Deficit (-) or Surplus under:					
CBO economic assumptions	-175	-163	-143	-132	-120
Low-growth alternative	-200	-259	-272	-256	-252
As Percent of GNP					
Deficit (-) or Surplus Under:					
CBO economic assumptions	-4.2	-3.7	-3.0	-2.5	-2.1
Low-growth alternative	-4.9	-6.3	-6.3	-5.5	-5.1

SOURCE: Congressional Budget Office

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